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Arizona Corporation Commission

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JAN 07 2014

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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION



IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR
AUTHORITY TO: (1) ISSUE EVIDENCE
OF INDEBTEDNESS IN AN AMOUNT
NOT TO EXCEED \$1,238,000 IN
CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY
SYSTEM; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

SUPPLEMENT TO PRE-FILED TESTIMONY

Pursuant to the Procedural Order issued on Dec. 9, 2013, Suzanne Nee, "SN", is granted intervention in the above-captioned matter.

Upon additional review of the accounting term "Miscellaneous Expense" which www.allbusiness.com defines as "incidental expense of a business, not classified as manufacturing, selling, or general and administrative expenses. It is presented on an income statement after the operating income. Miscellaneous expenses are immaterial. A more precise designation or separate accounting for them results in a cost greater than the benefit received."

Payson Water Company's Miscellaneous Expenses in Test year 2012 can hardly be considered immaterial or insignificant. The **Miscellaneous Expense** listed on their Comparative Statement of Income and Expense for 2012 is **\$249,525**. Their Total Revenues for 2012 were **\$394,908**. Thus, their Miscellaneous Expense is **63.2%** of their Total Revenues. This is hardly immaterial! This is an expense that can't be classified as a manufacturing, selling, or general and administrative expense.

1 If PWC's Misc. Expense was a more reasonable 2.5% of Total Revenue or $0.025 \times \$394,908$
2 $= \$9,872.7$. A more reasonable Total Operating Expenses would then be: $\$592,977 - \$249,525 +$
3 $\$9,872.7 = \$353,324.7$.

4
5 This reduction in Operating Expenses would turn the **\$198,069 Operating Loss** into a
6 **\$41,583.3 Operating Profit**. The Net **Return on Assets** would then be $\$41,583.3 / \$739,873 =$
7 **5.62%**. See Exhibit A.

8
9 If one did a similar computation on Payson Water Company's 2011 Comparative
10 Statement of Income and Expense: $0.025 \times \$497,039 = \$12,426$. The more reasonable Total
11 Operating Expense would then be: $\$589,764 - 231,299 + 12,426 = \$370,891$.

12
13 This reduction in 2011 Operating Expenses would turn the \$92,725 Operating Loss into a
14 **\$126,148 Operating Profit**. The Net **Return on Assets** would then be $\$126,148 / \$906,528 =$
15 **13.9%**. See Exhibit A.

16
17 Return of Assets in the 5.62-13.9% range seems fair and reasonably for the service PWC
18 provides to its customers.

19
20 Payson Water Company's Miscellaneous Expense/Total Revenue for the years 2008
21 through 2012 respectively were: 38.4%, 45.5%, 50%, 46.5%, and 63.2%. I would like to know
22 where this money is going? Why would such large dollar amounts not be accounted for in a
23 different expense account?

24
25 Representing Mead Ranch I took an email survey of residents. I only had a fraction of the
26 69 residents' email addresses, but I did receive 15 completed surveys of the 69 Mead resident,
27 about a 22% response. Of these residents, 8 of 15, or 53.3% indicated that they are retired. The
28 people that I've spoken too are living on tight budgets. **Exhibit B-** Mead Survey.

29
30 If residents at Mead Ranch or any of the other communities want a risk free investment,
31 the best rates in Phoenix presently are 0.55%, 1% and 2% for a 1 year, 2 year and 5 year CDs,
32 respectively. **See Exhibit C**.

33
34 In comparison to the risks inherent of the water utility business, Returns on Assets of
35 5.62% to 13.9% are reasonable. Document 00001510671, Exhibit C, shows that Value Line
36 Investment Survey's 2012 Return on Capital for Water Utilities was 6.04% and the 2013 Return
37 on Capital for Water Utilities was 5.69%. Payson Water Company's Revised Returns without the
38 questionable large Miscellaneous Expenses are appropriate with the existing rate structure.

39
40 In regards to Payson Water Company's Rejoinder Testimony, document 0000150671,
41 regarding Ms. Reidhead's objecting to a consolidated rate structure and trying to advance the
42 argument for cost of service studies, Mr. Williamson responds on page 13, "It also helps to
43 provide a smoothing effect over discrete cost spikes across the various systems and over time."

44
45 This is exactly Ms. Reidhead and my point, that the costs associated with the proposed
46 MdC project's discrete costs WILL be spread over the other communities that will not benefit

1 from such a large expense. Mr. Williamson is agreeing to our position that we, the other
2 communities, will see increases as the MdC Cragin Pipeline costs are "smoothed" over if their
3 billing system remains consolidated. In addition, this is not a manufacturing organization, what
4 would be the economies of scale?
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Exhibit A

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COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR	
461	Metered Water Revenue	\$ 474,116	\$ 386,877	
460	Unmetered Water Revenue			
474	Other Water Revenues	22,923	8,031	
	TOTAL REVENUES	\$ 497,039	\$ 394,908	
	OPERATING EXPENSES			
601	Salaries and Wages	\$ 56,886	\$ 55,688	
610	Purchased Water	46,604	51,953	
615	Purchased Power	60,782	56,482	
618	Chemicals			
620	Repairs and Maintenance	22,692	27,774	
621	Office Supplies and Expense			
630	Outside Services	48,621	67,734	
635	Water Testing	17,916	11,000	
641	Rents			
650	Transportation Expenses			
657	Insurance - General Liability			
659	Insurance - Health and Life	2,614	266	
666	Regulatory Commission Expense - Rate Case			
675	Miscellaneous Expense	12,426	231,299	249,525 9872.7
403	Depreciation Expense		77,458	61,428
408	Taxes Other Than Income			
408.11	Property Taxes		24,892	11,127
409	Income Tax			
	TOTAL OPERATING EXPENSES	376,891	589,764	592,977 353,324.7
	OPERATING INCOME/(LOSS)	126,148	(92,725)	\$ (198,069) 41,583.3

2011 Return on Assets:
 $\$126,148 / \$906,528 = 13.9\%$
 with lowered Misc. Expense
 of 2.5% of Total Revenue

2012 Return on Assets:
 $\$41,583.3 / \$739,873 = 5.62\%$
 with lowered Misc. Expense
 of 2.5% of Total Revenue

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Exhibit B

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Mead Ranch Email Survey- Nov. 2013								
Address	Year Built	Retired	Fixed Income	Vet?	Firefighter	Days/Month	For or Opposed	Water Rate Increase
166 Mountainview Terrace, Payson	1960	1970 No	Yes	No		4	Opposed	
401 W Old Pine Trl, Payson, AZ 85541	mid 1950s ~1970	1955 Yes 1972 Yes	Yes Yes	No Yes	Volunteer Volunteer	FT FT	Opposed Opposed	
163 Big Juniper Road	1961	1961 Yes	Yes	Yes		10	Opposed	
Lot 6	1956	1956 Both	Yes	Yes		2	Opposed	
128 Big Juniper Road	~1970	1970 Both	Yes			5.5	Opposed	
Lot 20 Big Juniper	1955	1955 No		Yes		4	Opposed	
Lot 7, 586 W. Old Pine Trail	1971	1971 yes	yes			FT	Opposed	
370 S. Park Rd.	1962	1962 no			Volunteer POC	20	Opposed	
283 E. Maynard & Icy Lane	1973	1973 Both	yes	Yes			Opposed	
189 Cabin Estates	1987	1987 No	No	No	No	4	Opposed	
353 Mountain View Terrace	1963	1963 No	No	No	No	FT	Opposed	
410 Old Pine Trail	1959	1959 No		No	No	8	Opposed	
186 S. Park Rd.	~1975	1975 Both	Yes	No	No	FT	Opposed	
194 Rim Trail	1955	No	No	No	No	4	Opposed	
Average Age of Home	1964.8	15 homes responding to email						
15/69 respondents		8/15 retired						
21.74%		8/15						
		53.33%						

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Exhibit C

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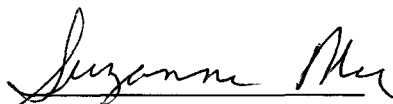
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1 yr CD				2 yr CD			
Institution	APY	Rate	Min Deposit	Institution	APY	Rate	Min Deposit
AmTrust Bank	0.55% Tue Jan 7	0.55 % Compounded daily	\$500	MidFirst Bank	1.00% Tue Jan 7	1.00 % Compounded daily	\$1,000
MidFirst Bank	0.40% Tue Jan 7	0.40 % Compounded daily	\$1,000	AmTrust Bank	0.95% Tue Jan 7	0.95 % Compounded daily	\$500
Bank of America	0.06% Tue Jan 7	0.06 % Compounded monthly	\$1,000	Bank of America	0.15% Tue Jan 7	0.15 % Compounded monthly	\$1,000
Wells Fargo	0.05% Tue Jan 7	0.05 % Compounded daily	\$2,500	Wells Fargo	0.15% Tue Jan 7	0.15 % Compounded daily	\$2,500
Chase Bank	0.02% Tue Jan 7	0.02 % Compounded daily	\$1,000	Chase Bank	0.05% Tue Jan 7	0.05 % Compounded daily	\$1,000

5 yr CD			
Institution	APY	Rate	Min Deposit
MidFirst Bank	2.00% Tue Jan 7	1.98 % Compounded daily	\$1,000
AmTrust Bank	1.35% Tue Jan 7	1.34 % Compounded daily	\$500
Wells Fargo	0.45% Tue Jan 7	0.45 % Compounded daily	\$2,500
Chase Bank	0.25% Tue Jan 7	0.25 % Compounded daily	\$1,000
Bank of America	0.20% Tue Jan 7	0.20 % Compounded monthly	\$1,000

1 Dated this 7th day of January, 2014
2
3



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10
11 ORIGINAL and thirteen (13) copies
12 of the foregoing were filed this 6th
13 day of January, 2014 with:
14

15 Docket Control
16 Arizona Corporation Commission
17 1200 W. Washington Street
18 Phoenix, AZ 85007
19

20 COPY of the foregoing was mailed
21 this 6th day of January to:
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